



Audit Committee Charter

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Committee Scope

The Audit Committee of the Kentucky Community and Technical College System (KCTCS) Board of Regents (Board) is the oversight authority over internal control practices, regulatory compliance, and risk management activities for the KCTCS.

Committee Purpose

The Audit Committee's purpose is to assist the board of regents by providing oversight and guidance on the adequacy of KCTCS' initiatives for (1) Risk management, (2) Values and ethics, (3) Internal control, (4) Oversight of internal and external audit, and (4) Financial statements and public accountability reporting.

The committee shall recommend the designation of an independent auditor and shall cause to be prepared and submitted to the Board of Regents for approval, at least once a year, an audited statement of the financial condition of the system as of the close of the fiscal year and of the receipts and expenditures for each year.

The committee may request any designated independent auditor, internal auditor, or any other officer or employee of the system to appear before it to report on the financial condition of the system and answer any questions the committee might have. The committee shall also receive other audit reports pertaining to the institution and recommend any changes deemed appropriate to financial control and accounting systems. This committee shall monitor internal controls and risk management.

Committee Authority

The Audit Committee was established by KCTCS Board of Regents Bylaws as revised and approved in September of 2021 (<https://policies.kctcs.edu/board-policies/BOR-Bylaws.aspx>). The committee is authorized to perform its work as established within this charter. In conducting its work, the committee has unrestricted access to members of administration, staff, faculty, and any relevant information it considers necessary to discharge its duties. The committee also has unrestricted access to relevant records, data, and reports. The committee is entitled to receive explanations from administration, staff, and faculty. The Audit Committee may engage independent counsel or other advisors as it deems appropriate. When engaging independent counsel or other advisors, all applicable state procurement regulations will be followed.

Committee Composition

The Audit Committee shall consist of the Board Chair and Vice Chair with at least one (1) representative from each of the Board's non-appointed membership groups (student, faculty, and non-teaching personnel). Additional Board members may serve on the Audit Committee when appointed by the Board Chair. Leadership of the Audit Committee shall be established by the Board Chair.

To ensure continuity of Audit Committee members, at least three (3) members shall serve 2 (two) year terms. The other members shall serve one (1) year terms. Should any Board member's Board term expire during his/her service on the Audit Committee, the Board Chair will appoint a replacement member as soon as practicable.

Committee Meetings

The Audit Committee shall meet no less than bi-annually in conjunction with the regularly scheduled June and December meeting. The committee may invite members of management, auditors, or others to

attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared. The Vice President of Administration, or their designee, will attend all committee meetings.

Committee Responsibilities

Overall, the Audit Committee's responsibilities shall be to:

- Receive and review internal audit reports with recommendations to be made, if necessary; and
- Receive and review external audit reports with recommendation to be made, if necessary; and
- Address conflicts of interest should they arise

Specifically, the Audit Committee's responsibilities shall be to:

- Provide oversight on significant risk exposures and control issues, fraud risks, and other matters as requested by administration and the Board.
- Review and provide advice on the risk management arrangements established and maintained by administration and the procedures implemented to ensure they are operating as intended.
- Provide oversight of the mechanisms established to maintain high ethical standards for all administrators, faculty and staff.
- Review the findings of any examinations by regulatory agencies and any internal or external auditor observations.
- Take an active role in the prevention and deterrence of fraud.
- Challenge administration and internal and external auditors to ensure that the KCTCS System has appropriate antifraud programs and controls in place to identify potential fraud, including a mechanism for reporting potential misconduct anonymously, and ensure investigations are undertaken if fraud is detected.
- Ensure appropriate action is taken against known perpetrators of fraud.
- Receive reports on all matters of significance arising from work performed by others who provide finance and internal control assurance to administration and the Board.
- Review the management letter prepared in connection with the annual external audit and consider the impact of any control deficiencies, significant deficiencies, and material weaknesses, if any.
- Review regular reports on the progress of implementing approved action plans on recommendations from internal and external auditors resulting from completed audits.

External Audit

To obtain reasonable assurance with respect to work of the external assurance providers, the Audit Committee shall:

- In concert with management's recommendation, review and approve the selection of the external auditors including the selection criteria used to select the auditor and the justification for management's recommendation.
- Advise the Board on the hiring of the external auditors.
- Meet with the external auditors during the audit planning, the presentation of the audited financial statements, and the discussion of the management letter and recommendations.

Reporting Responsibilities

The Audit Committee shall:

- Regularly report to the Board about committee activities and issues that arise with respect to the quality or integrity of the System's financial statements, compliance with legal or regulatory requirements, the performance and independence of the System's independent auditors, and the performance and independence of the System's independent internal auditors.
- Provide an open avenue of communication between the internal auditors, the external auditors, and the Board of Regents.
- Review any other reports the System issues that relate to committee responsibilities.

Other Responsibilities

The Audit Committee shall:

- Perform other activities related to this charter as requested by the Board of Regents.
- Review and assess the adequacy of the committee charter annually, requesting board approval for proposed changes, and ensure appropriate disclosure as may be required by law or regulation.
- Confirm annually that all responsibilities outlined in this charter have been carried out.

Internal Audit

As of July 1, 2021, KCTCS contracted with DeanDorton Public Accounting and Professional Services firm (<https://deandorton.com/>) to conduct internal audits for the System. As part of that contracting agreement, DeanDorton provided an Internal Audit Charter intended to guide and govern its activities as it fulfills its contract with KCTCS. Below is the entirety of the Internal Audit Charter as amended in February 2025.

Internal Audit Charter as provided by DeanDorton in February 2025.

Introduction

This Internal Audit Charter formally defines the purpose, scope, authority, and responsibilities of the internal audit function at Kentucky Community and Technical College System (hereafter, KCTCS). It establishes the internal audit function's position within the organization, authorizes access to records, personnel, and physical properties relevant to the performance of engagements, and defines the scope of internal audit activities.

The internal audit function, which is fully outsourced to Dean Dorton, operates in accordance with the Global Internal Audit Standards promulgated by The Institute of Internal Auditors. This charter has been drafted to comply with Standard 6.2 Internal Audit Charter and related requirements.

Purpose

The purpose of the internal audit function is to strengthen KCTCS's ability to create, protect, and sustain value by providing the board and management with independent, risk-based, and objective assurance, advice, insight, and foresight.

The internal audit function enhances KCTCS's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

KCTCS's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with The IIA's Global Internal Audit Standards™, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.

Commitment to Adhering to the Global Internal Audit Standards

The KCTCS's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The chief audit executive will report periodically to the board and senior management regarding the internal audit function's conformance with the Standards, which will be assessed through a quality assurance and improvement program.

Mandate

The mandate of the internal audit function is to provide independent, objective assurance and consulting services designed to add value and improve KCTCS's operations. The internal audit function helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Authority

The KCTCS's board grants the internal audit function the mandate to provide the board and senior management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the board. Such authority allows for unrestricted access to the board.

The board authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of KCTCS and other specialized services from within or outside KCTCS to complete internal audit services.

Independence, Organizational Position, and Reporting Relationships

The designated representative from Dean Dorton, serving in the capacity of Chief Audit Executive (CAE), will be positioned to ensure that internal audit services and responsibilities can be performed without interference from management, thereby establishing the independence of the outsourced internal audit function. (See "Mandate" section.)

The CAE will report functionally to the Board through its authorized Audit Committee and administratively to the President of KCTCS. The Audit Committee acts with full authority of the Board in matters relating to Internal Audit oversight. This reporting structure provides the necessary organizational authority and status to bring matters directly to senior management and escalate issues to the Audit Committee and when necessary, the full Board, without interference. It also supports the outsourced internal auditors' ability to maintain objectivity.

The CAE will confirm to the Audit Committee, at least annually, the organizational independence of the

outsourced internal audit function. If the governance structure does not fully support organizational independence, the CAE will document the characteristics of the governance structure limiting independence and any safeguards employed to achieve the principle of independence.

The CAE will disclose to the Audit Committee any interference the outsourced internal audit team encounters related to the scope, performance, or communication of internal audit work and results. This disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.

KCTCS recognizes that while the internal audit function is outsourced, the responsibility for maintaining an effective system of internal control remains with management and the Board. The outsourced internal audit function serves as a third-line assurance provider, independent of management's first and second-line control and risk management functions.

To further ensure independence:

1. The outsourced internal audit team will have no operational responsibilities with KCTCS.
2. The selection, engagement, and termination of the outsourced internal audit service provider will be approved by the Board.
3. The Board will be involved in evaluating the performance of the outsourced internal audit function and the CAE.
4. Any changes to the scope of internal audit services will be approved by the Board.

CAE will communicate and interact directly with the Audit Committee, with or without management as appropriate.

Changes to the Mandate and Charter

Circumstances may justify a follow-up discussion between the CAE, audit committee, and senior management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the CAE, board, and/or senior management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

Board and Audit Committee Oversight

To establish, maintain, and ensure that KCTCS's internal audit function has sufficient authority to fulfill its duties, the Board, through its authorized Audit Committee, will:

- The Board delegates primary oversight responsibility of the internal audit function to the Audit Committee, which acts with full Board authority in matters relating to internal audit oversight.
- The Audit Committee will regularly report to the full Board on significant internal audit matters, including but not limited to:
 - Material findings and recommendations
 - Progress against the approved audit plan
 - Resource adequacy and limitations
 - Results of quality assurance reviews
 - Any interference with internal audit independence
 - Budget and resource utilization
- While routine oversight is delegated to the Audit Committee, the CAE retains the right to directly access the full Board when deemed necessary, and particularly regarding:

- Matters of significant risk or control concerns
- Issues involving senior management
- Annual presentation of the audit plan
- Any matter where Audit Committee oversight may present a conflict
- The full Board retains ultimate responsibility for:
 - Approval of the outsourced internal audit services contract
 - Setting the overall tone and direction for internal audit independence
- Through the Audit Committee, the Board will:
 - Annual approval of the internal audit charter
 - Discuss with the CAE and senior management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function
 - Ensure the CAE has unrestricted access to and communicates and interacts directly with the board through the audit committee.
 - Discuss with the CAE and senior management other topics that should be included in the internal audit charter
 - Participate in discussions with the CAE and senior management about the "essential conditions," described in the Global Internal Audit Standards
 - Review the internal audit charter periodically with the CAE to consider changes affecting the organization
 - Approve the risk-based internal audit plan
 - Approve the internal audit function's human resources administration, budgets, and expenses
 - Collaborate with senior management to determine the qualifications and competencies expected in a CAE
 - Receive communications from the CAE about the internal audit function's performance relative to its plan
 - Make appropriate inquiries of senior management and the CAE to determine whether scope or resource limitations exist

Chief Audit Executive Roles and Responsibilities

Ethics and Professionalism

The CAE will ensure that the outsourced internal auditors:

- Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care, and confidentiality.
- Understand, respect, meet, and contribute to the legitimate and ethical expectations of the organization and be able to recognize conduct that is contrary to those expectations.
- Encourage and promote an ethics-based culture in the organization.
- Report organizational behavior that is inconsistent with the organization's ethical expectations, as described in applicable policies and procedures.

Objectivity

The CAE will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the CAE determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements

objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for KCTCS or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any KCTCS employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.

Outsourced Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the CAE, board, management, or others.
- Exhibit professional objectivity in gathering, evaluating, and communicating information.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid conflicts of interest, bias, and undue influence.

Managing the Internal Audit Function

The CAE has the responsibility to:

- At least annually, develop a risk-based internal audit plan that considers the input of the Board (through its Audit Committee) and senior management. Present the plan to the Audit Committee for review and submit to the Board for final approval.
- Communicate the impact of resource limitations on the internal audit plan to the Audit Committee and senior management, with significant resource constraints escalated to the full Board.
- Review and adjust the internal audit plan, as necessary, in response to changes in KCTCS's business, risks, operations, programs, systems, and controls, with material changes reported to the Audit Committee.
- Communicate with the Audit Committee and senior management regarding significant interim changes to the internal audit plan, with substantial modifications reported to the full Board.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans. Communicate results of internal audit services to the Audit Committee and senior management periodically and for each engagement as appropriate, with significant findings reported to the full Board.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies and qualifications needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact KCTCS and communicate to the Audit Committee and senior management as appropriate, escalating significant matters to the full Board.
- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to KCTCS's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the Audit Committee and senior

management, with significant conflicts escalated to the full Board.

- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the CAE cannot achieve an appropriate level of coordination, the issue must be communicated to senior management and the Audit Committee, and if necessary escalated to the full Board.
- Provide quarterly updates to the Audit Committee on the status of the audit plan, significant findings, and other matters requiring attention.

Communication with the Board, Audit Committee, and Senior Management

The CAE will report:

Quarterly to the Audit Committee and senior management regarding:

- The internal audit function's mandate
- The internal audit plan and performance relative to its plan
- Internal audit budget and resource utilization
- Results of assurance and advisory services
- Status of management action plans
- Resource requirements

Immediately to the Audit Committee and senior management, with escalation to the full Board as needed, regarding:

- Significant revisions to the internal audit plan and budget
- Potential impairments to independence, including relevant disclosures as applicable
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring immediate attention
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond KCTCS's risk appetite

Annually to the Audit Committee, with reporting to the full Board, regarding:

- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement
- Annual assessment of the internal audit function's performance against its mandate and plan
- Strategic review of resource adequacy

The CAE maintains the right to communicate directly with the full Board on any matter deemed sufficiently significant, particularly those involving senior management or matters where Audit Committee oversight may present a conflict.

Quality Assurance and Improvement Program

The CAE will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the outsourced internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.

The CAE will communicate with the Audit Committee and senior management quarterly about ongoing monitoring activities of the quality assurance and improvement program. Annually, the CAE will present to the Audit Committee, with subsequent reporting to the full Board:

- Results of internal assessments (ongoing monitoring and periodic self-assessments)
- Status of improvement plans from previous assessments
- Performance metrics and achievement of program objectives
- Any significant challenges or resource constraints affecting program quality

External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside KCTCS; qualifications must include at least one assessor holding an active Certified Internal Auditor® credential. The selection of the external assessor and the assessment scope will be reviewed with the Audit Committee and approved by the Board. Results of external assessments will be reported to:

- The Audit Committee and senior management in detail, including specific findings and recommendations
- The full Board, focusing on significant results and required action plans
- Other stakeholders as appropriate and required by standards

Scope and Types of Internal Audit Services

The scope of internal audit services covers the entire breadth of the organization, including all KCTCS's activities, assets, and personnel. The internal audit function operates within the framework of a defined audit universe, which encompasses all auditable areas within KCTCS. This audit universe serves as the basis for risk-based audit planning and ensures comprehensive coverage of the organization's operations, risks, and controls over time.

The audit universe will be periodically reviewed and updated to reflect changes in the organization's structure, operations, and risk profile. These updates will be reviewed with the Audit Committee, with significant changes reported to the full Board. The scope of internal audit activities encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the Board (through its Audit Committee) and management on the adequacy and effectiveness of governance, risk management, and control processes for KCTCS.

The nature and scope of advisory services may be agreed with the party requesting the service, subject to the following conditions:

- The CAE must inform the Audit Committee of significant advisory service requests
- The internal audit function must not assume management responsibility
- Advisory services that could potentially impact independence or objectivity must be approved by the Audit Committee before acceptance
- Advisory services requiring substantial resources or affecting the approved audit plan must be reviewed with the Audit Committee

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during advisory engagements. These opportunities will be communicated to the appropriate level of management, with significant matters reported to the Audit Committee and escalated to the full Board as needed.

Internal audit engagements, as agreed upon with the Board through its Audit Committee and senior management, may include evaluating whether:

- Risks relating to the achievement of KCTCS's strategic objectives are appropriately identified and managed, with significant risk management concerns reported to the Audit Committee and escalated to the full Board as needed.
- The actions of KCTCS's officers, directors, management, employees, and contractors or other relevant parties comply with KCTCS's policies, procedures, and applicable laws, regulations, and governance standards. Any significant compliance issues will be reported to the Audit Committee with appropriate escalation protocols.
- The results of operations and programs are consistent with established goals and objectives, with material variances or concerns reported through established governance channels.
- Operations and programs are being carried out effectively and efficiently within the context and limitations of an outsourced internal audit function.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact KCTCS, considering the scope limitations and responsibilities defined in the outsourcing agreement.
- Information systems governance is effective, and the integrity of information and the means used to identify, measure, analyze, classify, and report such information is reliable.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately, within the agreed-upon scope of outsourced internal audit services.

The specific scope and depth of these evaluations will be determined by:

- The risk assessment process
- Resource availability under the outsourcing agreement
- Priorities established by the Audit Committee
- Specific requirements of the Board
- Coordination with other assurance providers

Any limitations on the scope of these evaluations due to the outsourced nature of the internal audit function will be clearly communicated to the Audit Committee and documented in engagement planning materials.

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